

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

March 8, 2005

CONFERENCE CALL MEETING

Board members present:

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2007)

DAVID LEWIS, Employer Representative (term expiring July 1, 2006)

MARIE DUQUETTE, Governor's delegate

ELIZABETH PEARCE, Deputy Treasurer representing JEB SPAULDING, State Treasurer

Board members absent:

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005)

Also attending:

Cynthia Webster, Director of Retirement Services

David Driscoll, Mellon Consultants

Pauline Ellis, Mellon Consultants

David Minot, Director of Finance and Investments

The Chairperson, Steve Jeffrey, called the *conference call* meeting to order at 1:04 p.m. on Tuesday, March 8, 2005, held in the Treasurer's Office, 133 State Street, Montpelier, VT.

ITEM 1: Discuss Health Insurance Options

David Driscoll and Pauline Ellis joined the meeting; Mr. Driscoll called from Boston and Ms. Ellis called from NY. Ms. Ellis explained she was a member of the tax and legal consulting group of Mellon Consulting and was a trained attorney, however, advised the Board she was not offering any legal advice or recommendations, only providing information to the Board.

Ms. Ellis described the nuances of the Health Reimbursement Account (HRA), which is employer funded, the Health Spending Account (HAS), which is employee owned similar to an IRA, and the 401(h) program, which is a public plan that could be funded from a portion of the pension trust fund and/or incoming contributions, however, requires an ongoing pension liability commitment and is subject to GASB regulations. The Board also discussed features of the Section 115 Trust plan, which is typically used by private industry but could provide the VMERS greater flexibility.

Mr. Jeffrey summarized the Board's position of not wanting to commit to an actuarial liability for retiree healthcare, but rather have a vehicle available for an annual, non-taxable, deposit of surplus funds from the pension trust assets that the Board would determine annually based on the funding ratio of the pension plan. He said, if possible, perhaps additional employer and employee contributions could be made, and ideally the money going in and out would be non-taxable.

Mr. Lewis added, that in lieu of transferring fund assets, incoming contributions for a determined length of time could be deferred to the 115 Trust, equivalent to the value of the surplus.

Ms. Ellis advised the Board, pre-tax and post-tax contributions are treated differently. The Board would have to define what healthcare expenses would be reimbursable and set up an administration of the accounting. Mr. Spaulding agreed and advised he believed the services would be contracted, and not a function of the Treasurer's Office.

The Board discussed language for statutory amendment that would be proposed to allow the Board to invest some of the current trust fund assets and/or future contributions. Also discussed was the need for language to allow the Board to assess an additional employer/employee charge, which would be earmarked for the Section 115 Trust. The Board was told contribution would not be subject to contribution limits, however, additional contributions would be pre-taxed for employers and post-taxed for employees.

The Board discussed their proposal to calculate initial and future contribution from any trust fund surplus assets be based on the surplus contribution and number of years of service per participant.

Ms. Ellis agreed to draft statutory amendment language as soon as possible for review by the Attorney Generals' Office. Upon the consensus of the Board, Ms. Ellis was advised to direct questions and/or seek any further clarification from Mr. Jeffrey.

ITEM 2: Discuss/Act on Global Bond Allocation and Manager

Mr. Minot advised the Board he had prepared a revised asset allocation with 5% to Global Bonds. The Board agreed they would prefer to see the recommendation and discuss it further at the March 21, 2005 meeting.

Mr. Minot will distribute the following materials to the Board for their review in consideration of adopting a new asset allocation including global bonds:

- Amended asset allocation,
- Proposed manager information,
- Global bond mandate description/presentation materials.

ITEM 3: Discuss International Equity Manager/Mandate Proposal

The Board was advised there would be five managers interviewed at a meeting to be held on March 21, 2005. The Boards will be provided a synopsis of the proposed managers prior to the meeting.

**ITEM 4: Approve the Minutes of February 15, 2005
Approve the Disability Retirement for: *Perry A. Pecor***

The Board agreed to postpone discussion and action on these items until March 21, 2005.

ITEM 5: Any other business to come before the Board

None

Adjournment:

On a motion by Mr. Lewis seconded by Ms. Duquette, the Board unanimously voted to adjourn at 2:00 p.m.

Next Meeting Dates:

The next business meeting of the board is scheduled for 12:00 p.m. on Monday, March 21, 2005.
The next scheduled quarterly investment meeting will be Tuesday, May 17, 2005.

Future Agenda Items:

Results of AG's RFP follow up – Jeb
Membership criteria follow up – CLW
Employee transfers within Plans discussion – CLW
DC Plan fund line-up review – DM

Respectfully submitted,

Donna Holden, Board Coordinator
for
Cynthia Webster, Secretary to the Board